



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

January 4, 2007

S. 4091

Social Security Trust Funds Restoration Act of 2006

*As cleared by the Congress on December 9, 2006,
and signed by the President on December 22, 2006*

SUMMARY

S. 4091, enacted as Public Law 109-465, authorizes the Treasury to reimburse the Social Security trust funds for amounts erroneously transferred from the trust funds to the Internal Revenue Service. The reimbursement will make the trust funds whole following an accounting error that occurred over the 1999-2005 period. The Treasury made a partial reimbursement to the trust funds using existing statutory authority in August 2006.

CBO estimates that S. 4091 will not affect total federal spending. It will increase on-budget direct spending by \$1.3 billion in fiscal year 2007 and decrease off-budget direct spending by the same amount. The act will not affect federal revenues.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 4091 is shown in the following table. The changes in direct spending fall within budget function 650 (Social Security).

ESTIMATED EFFECTS OF S. 4091 ON DIRECT SPENDING

		By Fiscal Year, in Millions of Dollars									
		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
CHANGES IN DIRECT SPENDING (ON-BUDGET)											
Payment from the Treasury to Reimburse Social Security Trust Funds		1,298	0	0	0	0	0	0	0	0	0
CHANGES IN DIRECT SPENDING (OFF-BUDGET)											
Trust Funds' Receipt of Reimbursement from the Treasury		-1,298	0	0	0	0	0	0	0	0	0

BASIS OF ESTIMATE

In 2006, the Social Security Administration (SSA) reported accounting errors in its program that allows beneficiaries to request that the agency withhold income taxes from their Social Security benefits. SSA withheld the correct amount from beneficiaries' monthly payments. However, from 1999 until 2005, SSA paid the Internal Revenue Service (IRS) more than twice the amount that beneficiaries elected to have withheld. In August 2006, the Treasury repaid the trust funds the amounts overpaid back to 2002 (plus interest) using existing statutory authority. However, the IRS determined it could not refund earlier overpayments because of the statute of limitations on refunds. Additionally, the interest rate earned by the Social Security trust funds exceeded the interest rate paid by the IRS on the refund. S. 4091 provides the Treasury with the statutory authority to reimburse Social Security for the remaining overpayments and lost interest. The transaction occurred on December 29, 2006.

The overpayments totaled \$6,590 million, consisting of \$5,912 million from the Old-Age and Survivors Insurance (OASI) trust fund and \$678 million from the Disability Insurance (DI) trust fund. On August 1, 2006, the Treasury credited \$6,215 million to the trust funds, comprising \$5,651 million in principal and \$545 million in interest. The amount needed to complete the reimbursement of the trust funds was \$1,298 million, comprising \$939 million in principal (for tax-years 1999-2001) and \$358 million in interest.

The reimbursement to the trust funds under S. 4091 entails two budgetary entries: the on-budget payment by the Treasury and the off-budget receipt by the trust funds. Although the combined transaction does not affect the unified budget deficit, it increases on-budget direct spending in fiscal year 2007.

The budgetary treatment of the August 2006 refund differed from that of S. 4091. The August payment by IRS was considered a tax refund, not direct spending. Thus, it reduced on-budget revenues instead of increasing on-budget direct spending.

ESTIMATE PREPARED BY: David Rafferty

ESTIMATE APPROVED BY:

Robert A. Sunshine
Assistant Director for Budget Analysis